

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Pontiac General Employees' Retirement System	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Pontiac
General Employees' Retirement System

Financial Report
with Required Supplemental Information
December 31, 2006

City of Pontiac General Employees' Retirement System

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Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Retirement Board
City of Pontiac General Employees'
Retirement System

We have audited the accompanying statement of plan net assets of the City of Pontiac General Employees' Retirement System (a component unit of the City of Pontiac, Michigan) as of December 31, 2006 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the General Employees' Retirement Board of the City of Pontiac. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Pontiac General Employees' Retirement System as of December 31, 2006 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 12, 2007



City of Pontiac

General Employees' Retirement System

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	2006	2005
Total assets	\$ 470,400,620	\$ 489,069,164
Total liabilities:		
Amounts due broker under securities lending agreement	-	52,857,655
Other liabilities	814,096	754,175
Total liabilities	814,096	53,611,830
Assets held in trust for pension benefits	<u>\$ 469,586,524</u>	<u>\$ 435,457,334</u>
Net investment gain	\$ 52,733,490	\$ 23,113,895
Net securities lending income	105,835	100,187
Contributions:		
Employee - Reinstated members	13,719	20,291
Employer	15,695	16,926
Retiree pension and annuity benefits	18,214,565	16,562,544
Benefits paid in excess of contributions	18,185,151	16,525,327
General and administrative expenses	524,984	660,931
Net increase in net assets held in trust	<u>\$ 34,129,190</u>	<u>\$ 6,027,824</u>

City of Pontiac

General Employees' Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The City of Pontiac General Employees' Retirement System (the "System") exists to pay benefits to its members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

The System has established asset allocation policies which are expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the adopted asset allocation as of December 31, 2006:

Domestic equities	55%
International equities	10%
Domestic fixed income	25%
Real estate	5%
Private equity	5%

Investment Results

In 2006, the stock market remained attractive relative to the bond market as the S&P 500 earnings yield outpaced the 30-year Treasury yield. The bond market was up modestly as the Fed kept interest rates steady toward the end of the year. The domestic equity market grew from last year. The S&P 500 ended the year up 15.8 percent. The fixed income market, measured by the Lehman Aggregate Index, returned 4.6 percent for the year. The international index, MSCI EAFE, was up 10.4 percent for the quarter and 26.3 percent for the year. The total fund excluding real estate returned 11.8 percent for the year.

The System's total fund return must always be considered in a longer-term context. The asset allocation of each fund is built upon the foundation that the obligations of the System to pay the benefits promised to members and retirees are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years.

City of Pontiac

General Employees' Retirement System

Statement of Plan Net Assets December 31, 2006

Assets

Cash (Note 3)	\$ 100,735
Accrued interest and dividends receivable	1,534,319
Accounts receivable:	
Due from City of Pontiac Police and Fire Retirement System	8,945
Due from broker for pending transactions	321,495
Due from GERS VEBA	72,543
Other receivable	3,098
Investments at fair value - Including loaned securities (Note 3):	
Money market funds	22,446,179
U.S. government agency notes and debentures	14,130,412
Corporate and other bonds	72,414,436
Equities	307,310,871
U.S. government agency mortgage pools	35,363,610
Real estate	16,693,977
	<hr/>
Total investments	468,359,485
	<hr/>
Total assets	470,400,620

Liabilities

Due to City of Pontiac	116,191
Accounts payable	697,905
	<hr/>
Total liabilities	814,096

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the required supplemental information)

\$ 469,586,524

City of Pontiac

General Employees' Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2006

Additions

Investment income:	
Interest and dividend income	\$ 15,457,978
Net appreciation in fair value	39,471,506
Investment advisor fees	<u>(2,195,994)</u>
Net investment income	52,733,490
Securities lending income:	
Interest and fees	2,116,381
Less borrower rebates and bank fees	<u>(2,010,546)</u>
Net securities lending income	105,835
Contributions:	
Employer	15,695
Employee - Reinstated members	<u>13,719</u>
Total additions	52,868,739

Deductions

Retirees' pension benefits and retirement incentives	18,214,565
Other expenses	271,011
Charges from the City of Pontiac - Administrative expenses	<u>253,973</u>
Total deductions	<u>18,739,549</u>

Net Increase in Net Assets Held in Trust for Pension Benefits	34,129,190
Net Assets Held in Trust for Pension Benefits - January 1, 2006	<u>435,457,334</u>
Net Assets Held in Trust for Pension Benefits - December 31, 2006	<u>\$ 469,586,524</u>

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The City of Pontiac (the "City") sponsors and administers the General Employees' Retirement System (the "System") (a contributory single-employer retirement plan) that covers substantially all employees of the City, except police and fire employees.

Reporting Entity - The financial statements of the System are also included in the combined financial statements of the City as a pension trust fund. The assets of the pension trust fund include no securities of or loans to the City or any other related party. At December 31, 2006, there were no investments in any one organization in excess of 5 percent of net assets available for benefits.

Basis of Accounting - The System's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals or audited financial statements.

Note 2 - Plan Description and Contribution Information

At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving pension benefits and terminated employees entitled to benefits but not yet receiving them	<u>1,331</u>
Current employees:	
Fully vested	129
Nonvested	<u>242</u>
Total current employees	<u>371</u>

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2006

Note 2 - Plan Description and Contribution Information (Continued)

Plan Description - The System provides retirement benefits, as well as death and disability benefits. Employees may receive cost of living adjustments as a percentage of their base amount, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by City ordinance and negotiation with the employees' collective bargaining units.

Contributions - Plan members are not required to contribute. The City is required to contribute at an actuarially determined rate. During the year, only the Stadium Authority Division had a required contribution. Administrative costs are financed through investment earnings.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The System is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The System is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2006

Note 3 - Deposits and Investments (Continued)

The System has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 314 of 1965, as amended. The System's deposits and investment policies are in accordance with statutory authority. The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had approximately \$1,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Money market funds	\$ 22,688,758	.08 years
Corporate and other bonds	73,141,635	7.03 years
U.S. government agency notes and debentures	14,339,591	11.78 years
U.S. government agency mortgage pools	35,571,833	21.75 years

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System's investment policy limits investments in domestic fixed-income securities to not less than a CCC rating for an overall average quality of each high-yield portfolio; the overall quality rating of each high-grade portfolio must be AA or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's A1 or Moody's P-1; for global bonds, the overall average quality must be AA or higher. As of year end, the credit quality ratings of debt securities are as follows:

Investment Type	Fair Market Value	Moody's Rating
Corporate and other bonds	\$ 5,824,969	A1
Corporate and other bonds	2,733,188	A2
Corporate and other bonds	2,064,521	A3
Corporate and other bonds	5,077,301	AA1
Corporate and other bonds	961,917	AA2
Corporate and other bonds	7,658,263	AA3
Corporate and other bonds	8,538,392	AAA
Corporate and other bonds	215,957	B1
Corporate and other bonds	2,591,381	B2
Corporate and other bonds	1,965,427	B3
Corporate and other bonds	1,012,306	BAA1
Corporate and other bonds	1,898,814	BAA2
Corporate and other bonds	751,310	BAA3
Corporate and other bonds	806,104	CAA1
Corporate and other bonds	2,045,446	CAA2
Corporate and other bonds	489,894	CAA3
Corporate and other bonds	28,506,445	Unrated
U.S. government agency mortgage pools	1,032,285	AA2
U.S. government agency mortgage pools	25,236,150	U.S. Agency
Money market funds	22,895,115	Unrated

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2006

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

The System places no limit on the amount it may invest in any one issuer. The investment in CAPROC, totaling approximately \$11,368,000, represents approximately 2.4 percent of the System's net assets. Two of the 12 members on the CAPROC board are General Employees' Retirement System trustees.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system limits total assets in international equities and fixed income funds to 10 percent of the total pension systems market value. The following securities are subject to foreign currency risk:

	Fair Market Value	Mutual Funds	Equity
Australian Dollar	\$ 8,886	\$ 263	\$ 8,623
British Pound Sterling	19,838	34	19,804
Danish Krone	44	44	-
Euro Currency Unit	85,513	2,296	81,217
Hong Kong Dollar	195,369	195,369	-
Japanese Yen	1,983	1,983	-
Malaysian Ringgit	101	-	101
Mexican New Peso	2	2	-
Polish Zloty	30,275	2,482	27,793
Romanian Leu	4,935	430	4,505
Russian Rubel (New)	12,735	451	12,284
S. African Comm Rand	1	1	-
Singapore Dollar	13	13	-
Swiss Franc	32,413	32,413	-
Ukraine Hryvana	48,767	-	48,767

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2006

Note 3 - Deposits and Investments (Continued)

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2006, only United States currency was received as collateral.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The General Employees' Retirement System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2006, the System had no securities on loan.

Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of December 31, 2006, the System's reserves have been fully funded as follows:

Reserved for employee contributions	\$ 3,689,369
Reserved for retired employees	185,562,003

Note 5 - Subsequent Event

During April 2007, the System entered into a buy-out agreement related to certain investments in real estate. In exchange for the System's interest in the investment, the System received \$1,775,000 of cash at closing and entered into a note for the balance of approximately \$10,890,000, including accrued interest of \$220,000. The investment was valued at \$12,378,000 as of December 31, 2006.

Required Supplemental Information

City of Pontiac

General Employees' Retirement System

Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/00*	\$ 378,063,942	\$ 217,942,909	\$ (160,121,033)	173.5	\$ 18,728,688	-
12/31/01**	395,743,819	227,901,435	(167,842,384)	173.6	19,887,803	-
12/31/02*	393,214,033	235,422,367	(157,791,666)	167.0	20,039,136	-
12/31/03	394,367,065	247,396,857	(146,970,208)	159.4	20,807,612	-
12/31/04	394,807,254	258,365,787	(136,441,467)	152.8	21,320,477	-
12/31/05	391,409,757	260,103,260	(131,306,497)	150.5	16,751,815	-

* Plan amended

** Certain assumptions revised

City of Pontiac

General Employees' Retirement System

Required Supplemental Information Schedule of Employer Contributions

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1999	\$ 133,572	218.9
2000	175,021	100.0
2001	139,583	119.0
2002	46,888	166.0
2003	10,608	100.0
2004	2,767	392.9
2005	16,926	100.0
2006	15,695	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actuarial valuation, is as follows:

Actuarial cost method	Individual entry age normal cost
Amortization method	Level percent of payroll
Remaining amortization period	30 years, open
Asset valuation method	Market value with five-year smoothing of gains and losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% to 9.4%
*Includes inflation at	4.5%
Cost of living adjustments	2% (2.5% Court/MAPE) of original amount, subject to a maximum that varies by group



Plante & Moran, PLLC
Suite 400
1000 Oakbrook Drive
Ann Arbor, MI 48104
Tel: 734.665.9494
Fax: 734.665.0664
plantemoran.com

June 12, 2007

To Mr. Charlie Harrison III, Chairman (GERS)
To Mr. Craig Storum, Chairman (PFRS)
To Mr. Ray Cochran, Chairman (General VEBA)
To Mr. Brian Lee, Chairman (Police and Fire VEBA)
To the City of Pontiac Retirement Board's
General Employees Retirement System
and Police and Fire Retirement System
47450 Woodward Ave
Pontiac, MI 48342

Dear Mr. Harrison, Mr. Storum, Mr. Cochran, and Mr. Lee:

We recently completed the audits of the General Employees Retirement System and the Police and Fire Retirement System (the "Systems"), as well as the related VEBAs, for the year ended December 31, 2006. We continue to be impressed with the organized and thorough manner in which Deborah Munson prepared for the audit. Her assistance in preparing the necessary schedules was greatly appreciated. As a result of the audit, we offer the following comments and recommendations for your consideration:

Retiree Health Care Benefits

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid.

The new pronouncement will require the City to obtain a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets of the City.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. As a result, funding the contribution on a current basis should reduce the long-run cost. The accounting change will become effective for the City for the year ended June 30, 2009. GASB Statement Number 43, *Financial Reporting for Post employment Benefit Plans Other Than Pension Plans*, is related to the VEBA plans themselves and will be effective for the year ending December 31, 2007. This statement impacts the reporting and disclosures made by the plan.

The City has established the two VEBAs to begin to pre-fund this liability. It is our understanding that the General VEBA was established to cover all current and retired general employees, other than hospital employees. However, the Police and Fire VEBA only covers persons retiring after August 22, 1996. As a result, there are significant numbers of employees (approximately 250) that are not currently being pre-funded through a VEBA.

Document Storage

As mentioned in the past, the Systems are responsible for keeping many important documents and records that often cannot be recreated (i.e., board minutes, member files, financial records, etc.). Given the very limited space allocated to the Systems' offices, it is difficult to provide adequate storage. It is imperative that the Systems maintain storage space that is not only well organized, but is also secure and fireproof. We recommend that the Systems review their current operating space and document storage facilities in an effort to improve conditions in order to ensure the safety of the related records. As a result of the current method of record keepings, during expenditure testing, there was a check copy that could not be located on the premises.

In the past, we have suggested looking into document imaging and understand the Systems have begun to research various options as they relate to different imaging systems. Document imaging would mitigate the need to retain paper files for extended periods. Documents would instead be scanned to create an electronic backup. Document imaging, while not necessarily a new technology, is being used increasingly as a means to provide a safe and effective back-up solution while maximizing space limitations.

We also continue to suggest that the Systems should consider various aspects of disaster recovery. If there were a fire or other catastrophe and the paper records and/or computer system were destroyed, the Systems should have a disaster recovery plan in place.

Bank Reconciliation Process

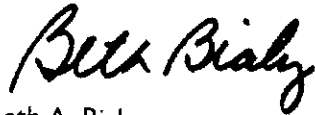
During our review of the bank reconciliation process, it was noted that one individual prepares the bank reconciliations with no documented review process by a separate individual. We recommend that the Systems' have an individual review the bank reconciliations after preparation, and document this review by signing and dating the reconciliations to enhance the controls in this area.

June 12, 2007

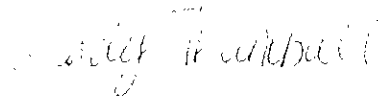
We would like to thank the Systems' staff for the excellent cooperation extended to us during the audit. We look forward to discussing our comments and recommendations with you. If you have any questions or require assistance in the implementation of our recommendations, please call us at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Beth A. Bialy



Wendy N. Trumbull